



# Ukraine: Current Issues and U.S. Policy

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## Summary

In January 2005, Viktor Yushchenko became Ukraine's new President after massive demonstrations helped to overturn the former regime's electoral fraud in what has been dubbed the "Orange Revolution," after Yushchenko's campaign color. Some hoped Ukraine might finally embark on a path of comprehensive reforms and Euro-Atlantic integration after nearly 15 years of half-measures and false starts. However, infighting within his governing coalition hampered economic reforms and led to disillusionment among Orange Revolution supporters. A long-running power struggle between Yushchenko and Prime Minister Yuliya Tymoshenko has paralyzed policy making, resulting in widespread public disgust with the Ukrainian political class as a whole. New presidential elections are scheduled for January 17, 2010.

The global economic crisis has hit Ukraine very hard. Ukraine's real Gross Domestic Product is expected to drop by 17% in 2009. In November 2008, the International Monetary Fund approved a \$16.4 billion standby loan for Ukraine to bolster its finances. The loan was conditioned on a commitment from Ukraine to allow its currency to depreciate in a controlled way, to recapitalize the banking sector, and to pursue more rigorous fiscal and monetary policies.

After taking office as President, Yushchenko said that Ukraine would seek integration into the global economy and Euro-Atlantic institutions. Ukraine joined the World Trade Organization (WTO) in May 2008. In the longer term, Yushchenko seeks Ukrainian membership in the European Union and NATO. Relations with Russia have been tense over such issues as Ukraine's NATO aspirations and energy supplies. The leftist opposition in the parliament opposes NATO membership and is more favorable to closer ties with Russia, especially in the economic sphere. Conflict between Ukraine's political forces has led its foreign policy to appear incoherent, as the contending forces pulled it in pro-Western or pro-Russia directions or simply neglected foreign policy as less important than domestic political combat.

U.S. officials supported the "Orange Revolution" in Ukraine, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as securing WTO membership, as well as in holding free and fair elections and improving media freedoms, while acknowledging difficulties in others, such as fighting corruption, establishing the rule of law, and constitutional reforms. The Bush Administration strongly supported granting a Membership Action Plan to Ukraine at the NATO summit in Bucharest in April 2008, a key stepping-stone to NATO membership. However, opposition by Germany, France, and several other countries blocked the effort. On the other hand, the Allies surprised many observers by confirming that Ukraine will join NATO in the future, without specifying a timetable. The Bush Administration strongly reiterated its support for Ukraine in the wake of the Russia-Georgia conflict of August 2008, which has sparked fears that Russia could take steps to divide Ukraine. The Obama Administration has expressed the desire to "reset" relations with Russia, but has warned that it will not accept any country's assertion of a sphere of influence. It has also reaffirmed its support for NATO's "open door" to NATO aspirants such as Ukraine.

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## Background

Ukraine, comparable in size and population to France, is a large, important, European state. The fact that it occupies the sensitive position between Russia and new NATO member states Poland, Slovakia, Hungary, and Romania, adds to its geostrategic significance. Many Russian politicians, as well as ordinary citizens, have never been fully reconciled to Ukraine's independence from the Soviet Union in 1991, and feel that the country should be in Russia's political and economic orbit. The U.S. and European view, especially in Central and Eastern Europe, is that a strong, independent Ukraine is an important source of regional stability.

From the mid 1990s until 2004, Ukraine's political scene was dominated by President Leonid Kuchma and the oligarchic "clans" (groups of powerful politicians and businessmen, mainly based in eastern and southern Ukraine) that supported him. Kuchma was elected President in 1994, and re-elected in 1999. He could not run for a third term under the Ukrainian constitution. His rule was characterized by fitful economic reform (albeit with solid economic growth in later years), widespread corruption, and a deteriorating human rights record.

Ukraine held presidential elections on October 31, November 21, and December 26, 2004. The oligarchs chose Prime Minister Viktor Yanukovich as their candidate to succeed Kuchma as President. The chief opposition candidate, former Prime Minister Viktor Yushchenko, was a pro-reform, pro-Western figure. International observers criticized the election campaign and the first and second rounds of the election as not free and fair, citing such factors as government-run media bias in favor of Yanukovich, abuse of absentee ballots, barring of opposition representatives from electoral commissions, and inaccurate voter lists. Nevertheless, Yushchenko topped the first round of the vote on October 31 by a razor-thin margin over Yanukovich. Other candidates finished far behind.

After the November 21 runoff between the two top candidates, Ukraine's Central Election Commission proclaimed Yanukovich the winner. Yushchenko's supporters charged that massive fraud had been committed. Hundreds of thousands of Ukrainians took to the streets, in what came to be known as the "Orange Revolution," after Yushchenko's chosen campaign color. They blockaded government offices in Kiev and appealed to the Ukrainian Supreme Court to invalidate the vote. The court invalidated the runoff election on December 3, and set a repeat runoff vote on December 26. Yushchenko won the December 26 re-vote, with 51.99% of the vote to Yanukovich's 44.19%. After court challenges by Yanukovich were rejected, Yushchenko was inaugurated as President of Ukraine on January 23, 2005. On February 4, 2005, the Ukrainian parliament approved President Yushchenko's appointment of Yuliya Tymoshenko as Prime Minister of Ukraine by a vote of 373-0. Tymoshenko is a charismatic, populist leader with a sometimes combative political style who campaigned effectively on Yushchenko's behalf. She is a controversial figure due in part to her alleged involvement in corrupt schemes as a businesswoman and a government minister during the Kuchma regime.

The "Orange Revolution" sparked a good deal of interest in Congress and elsewhere. Some hoped that Ukraine could finally embark on a path of comprehensive reforms and Euro-Atlantic integration after years of half-measures and false starts. However, subsequent events led to disillusionment among Orange Revolution supporters. Yushchenko dismissed Prime Minister Tymoshenko's government in September 2005. The atmosphere between the two leaders was poisoned by accusations of corruption lodged by supporters of each against the other side's partisans, including over the highly lucrative and non-transparent natural gas industry.

In order to secure support for a new government, Yushchenko then made a political non-aggression pact with his opponent from the presidential election, Viktor Yanukovich, and promised not to prosecute Yanukovich's key supporters for electoral fraud and other crimes. Some supporters of the Orange Revolution viewed the move as a betrayal of one of the key principles of their movement. Some began to question whether the new government was better than the old regime, given ongoing government corruption scandals and the perception that the Orange Revolution might be reduced to squabbling over the redistribution of property among the "old" oligarchs and would-be, new "Orange" ones.<sup>1</sup>

On March 26, 2006, Ukraine held parliamentary elections. The largest vote-getter in the elections was the Party of Regions, headed by Yushchenko's former presidential election rival Viktor Yanukovich. After the failure of protracted attempts to reconstitute the Orange Revolution coalition, the Socialist Party, formerly part of it, changed sides and formed a coalition with the Party of Regions and the Communists, which put forward Yanukovich as its candidate for Prime Minister. Yushchenko reluctantly appointed Yanukovich as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006. Yanukovich's government and the parliamentary majority, led by the Party of Regions, worked steadily to whittle away at Yushchenko's powers and political influence. The government and parliament removed ministers appointed by Yushchenko and rejected his proposed candidates to replace them. The government refused to implement Yushchenko's decrees.

Hoping to stem the threat to his power, President Yushchenko dissolved the Ukrainian parliament on April 2, 2007, claiming that the defection of individual members of the opposition to the majority (as opposed to a whole faction) made the ruling majority illegitimate. Prime Minister Yanukovich condemned Yushchenko's decree as unconstitutional and called on the government and parliament to ignore Yushchenko's decree and keep working. On May 27, after weeks of political and legal turmoil, Yushchenko, Yanukovich, and parliament chairman Oleksandr Moroz agreed that new parliamentary elections would be held on September 30, 2007, to end the crisis.

According to many observers, this political crisis underlined the fact that the country still needs to make substantial progress in developing a smoothly functioning democracy. The poorly defined separation of powers in Ukraine's constitution has invited conflict and needs to be clarified. Another key problem is the persistence of a post-Soviet political culture in which "winner-take-all" attitudes and unscrupulous tactics take precedence over a genuine respect for the rule of law.

On September 30, 2007, Ukraine held early parliamentary elections. The Party of Regions remains the largest party in the new legislature. It won 34.37% of the vote and 175 seats in the 450-seat parliament. The Yuliya Tymoshenko Bloc, which won 30.71% and 156 seats, is the second largest. Our Ukraine-People's Defense came in a distant third, with 14.15% and 72 seats. The Communist party received 5.39% of the vote and 27 seats. The Lytvyn Bloc was the only other party to reach the 3% vote barrier for representation in the parliament. It won 3.96% of the vote, and secured 20 seats. These results were not a dramatic departure from the results of the March 2006 election.

As has occurred in elections since Ukraine became an independent country in 1991, support for the parties was heavily regionalized. The Party of Regions was dominant in largely Russian-

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<sup>1</sup> Jamestown Foundation, *Eurasia Daily Monitor*, September 9, 2005; RFE/RL *Belarus, Ukraine, Moldova Report*, September 16, 2005.

speaking eastern and southern Ukraine, but did poorly in western and central Ukraine, where Ukrainian nationalism is strong. Support for the Communists was also concentrated in the east and south. Our Ukraine-People's Self Defense did well in western Ukraine, but poorly in the east. The Yuliya Tymoshenko Bloc was strongest in western and central Ukraine, beating Our Ukraine-People's Self Defense in all districts of these regions but one. The Tymoshenko Bloc was much weaker in eastern and southern Ukraine, but made moderate inroads there as compared to the previous election, perhaps opening the way to a future as democratic Ukraine's first truly country-wide party.

After lengthy negotiations, President Yushchenko nominated Tymoshenko as his candidate for Prime Minister. The parliament approved Tymoshenko as Prime Minister on December 18, 2007 by a vote of 226-0. The parliament then approved Tymoshenko's government. The Party of Regions, Communist Party and Lytvyn Bloc did not take part in the votes.

## Current Political Situation

The extreme fragility of her majority has made Tymoshenko's task as Prime Minister difficult. However, perhaps the key problem has been escalating tension between Tymoshenko and President Yushchenko. The two have clashed over economic policy (including privatization and budgetary policy), foreign policy (especially relations with Russia), energy policy, and over the relative powers of the presidency, the government, and the parliament. In addition to intense personal enmity and distrust between the two leaders, the conflict is also likely due to jockeying for power in advance of presidential elections in January 2010 (in which Yushchenko and Tymoshenko will be candidates.)

The Ukrainian government has lurched from crisis to crisis in the past year. In September 2008, the Our Ukraine bloc announced that it was leaving the governing coalition unless Tymoshenko reversed herself on the passage of laws by the parliament reducing the president's powers. The Tymoshenko Bloc and the Party of Regions had provided the votes for the measures. Our Ukraine also demanded that Tymoshenko join Yushchenko in condemning Russia's military assault on Georgia in early August 2008. Tymoshenko had avoided commenting on the issue.

### Ukraine's Main Political Groups

**Party of Regions:** The largest party in Ukraine's parliament. It draws its support from eastern Ukraine, where suspicion of Ukrainian nationalism is high and support for close ties with Russia is strong. It defends the economic interests of powerful oligarchic groups in eastern Ukraine.

**Yuliya Tymoshenko Bloc:** Mainly a vehicle for the ambitions of the charismatic Tymoshenko, it has little ideological cohesion. It became the second largest group in the Ukrainian parliament largely because many Ukrainians saw Tymoshenko as the most stalwart defender of the populist, anti-corruption ideals of the Orange Revolution.

**Our Ukraine-People's Self Defense bloc:** This bloc is composed of a number of parties favoring free market economic reforms and a pro-Western foreign policy. It draws its support from western Ukraine, where Ukrainian nationalism is strong. It was President Yushchenko's main base of support in parliament early in his term. However, the group has fragmented as Yushchenko's popularity has plummeted, leaving the president with few supporters.

**Communist Party:** Overtaken by the Party of Regions in its eastern Ukraine strongholds and faced with a largely elderly electorate. It strongly opposes market economics and favors strong ties to Russia.

**Lytvyn Bloc:** A centrist bloc headed by Volodymyr Lytvyn, former top official in the Kuchma regime. Lytvyn has changed sides several times in Ukraine's political struggles, backing the side with the upper hand at the moment.

In December 2008, Tymoshenko was able to save her government by expanding it to include the centrist Lytvyn Bloc, with Lytvyn becoming parliament speaker. A sufficient number of members

of the Our Ukraine bloc, which had been divided on whether to leave the government in the first place, agreed to participate in the new government. Since then, Yushchenko and Tymoshenko have also tried to undermine and force the dismissal of the other's key supporters in the government, further hindering its effectiveness.

In February 2009, Tymoshenko defeated a no-confidence motion put forward by the Party of Regions. Then, in a reversal of course in May and June 2009, Tymoshenko and the Party of Regions conducted negotiations on forming a national unity government (The Lytvyn Bloc and Our Ukraine were also invited to join.) Terms of the proposed accord were not formally made public, and both sides have denied responsibility for controversial provisions. However, documents leaked to the Ukrainian press claim that the agreement would have involved amending the constitution to make the presidency an appointed post rather than an elected one; increasing censorship of the press; giving the presidency more control over law enforcement; and extending the term of members of parliament for three to five years, leaving Tymoshenko as Prime Minister. In the end, negotiations collapsed due to distrust between the two sides. Nevertheless, the possibility that the parties may have viewed key elements of the constitution and even basic civil rights as acceptable bargaining chips in closed-door negotiations may demonstrate once again a lack of genuine respect for the rule of law and democratic principles among Ukraine's leaders.

New presidential elections are set for January 17, 2010. President Yushchenko scores in the low single digits in public opinion polls and is given virtually no chance of re-election by Ukrainian political observers. According to opinion polls over the past few months, Yanukovich is the leading candidate, with about 25-30% support. He holds a comfortable lead over Tymoshenko, who has scored in the mid-teens. Former parliamentary speaker Arseniy Yatsenyuk lags a few percentage points behind Tymoshenko. He is favored by some former Yushchenko supporters because he has a more unambiguous pro-reform, pro-Western orientation than Tymoshenko. Other potential candidates trail far behind. No candidate is likely to secure the 50% of the vote need to win the presidency in the first round. A runoff vote between the top two candidates will be necessary, likely pitting Yanukovich against one of the other two, probably Tymoshenko.

According to opinion polls, an overwhelming majority of Ukrainians are disgusted with the Ukrainian political class as a whole. This is due to the fact that Ukrainian leaders have continued to squabble despite the global economic crisis, which has inflicted severe blows on Ukraine's economy.

## **Current Economic Situation**

Until the global economic crisis, Ukraine was experiencing substantial economic growth, fueled mainly by consumption, including an import boom fueled by heavy domestic and foreign borrowing, which resulted in a widening trade deficit and current account deficit (7.2% of GDP in the first seven months of 2008). Ukraine's growth was also due to strong demand for products of the country's large steel and chemicals industries.<sup>2</sup>

Due to the unsustainable basis of its growth and the lack of confidence caused by its squabbling political leadership, Ukraine has been hit very hard by the global economic crisis. Ukraine's real

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<sup>2</sup> Economist Intelligence Unit Country Report: Ukraine, June 2008; "Ukraine: Slowing Growth Suggests Stagflation Risk," Oxford Analytica, August 14, 2008.



Gross Domestic Product fell by 20.3% in the first quarter of 2009, on a year-on-year basis. Industrial production dropped 38.9% in the same period.

Ukraine's currency, the hryvnya, has dropped sharply against the Euro and dollar and continues to face speculative pressure in international markets. The drop has been particularly devastating because 70% of consumer loans and half of corporate loans in Ukraine are denominated in foreign currency (mainly dollars), triggering the possibility of massive defaults by borrowers. As a result, Ukraine's banking sector is in crisis. Ukraine's banks borrowed heavily on international markets in recent years and their ability to repay those loans or receive new ones is questionable. They have also been negatively affected by the collapse of a real estate bubble in the country. Many banks have stopped making loans in Ukraine and have even stopped giving depositors their money back. Ukraine's central bank has taken over several failing banks. Ukraine currently has more than enough reserves to service its sovereign debt of about \$18 billion. However, total foreign debt of Ukraine's corporations (mainly banks) is five times larger than the sovereign debt. The state does not have enough cash to take over the obligations of the banking sector, if it collapses.

In November 2008, the International Monetary Fund approved a \$16.4 billion standby loan for Ukraine to bolster its finances. The loan was conditioned on a commitment from Ukraine to allow its currency to depreciate in a controlled way, to recapitalize the banking sector, and to pursue more rigorous fiscal and monetary policies. An initial tranche of \$4.5 billion was disbursed, but subsequent tranches were placed in jeopardy by the Ukrainian parliament's passage of a budget which ran a deficit of 3% of GDP in order to pay government salaries and make social payments. Even this budget is based on overly optimistic assumptions, according to experts. The IMF had demanded a balanced budget. Tymoshenko sought a \$5.5 billion loan from Russia, but rejected a Russian proposal that came with unacceptable conditions. Tymoshenko also asked the United States, EU, Japan, and China for loans.

After weeks of backbiting, in March 2009, Yushchenko and Tymoshenko finally agreed to a reform package in order to get the IMF aid flowing again. The budget was revised to reduce the deficit. Consumers were required to pay more for natural gas. The budget stipulated that the remaining budget deficit would be financed from loans and higher taxes rather than loosening monetary policy; pension reform would be enacted; and Ukraine would stop relying on its foreign currency reserves on defending its currency, among other provisions.<sup>3</sup> In response, the IMF has released additional tranches of the loan.

The austerity measures called for in the plan may increase social tensions in Ukraine and cause unrest. Tymoshenko may fear that they will damage her prospects in the 2010 presidential election. Hoping to exploit the situation, the Party of Regions has obstructed the work of the parliament, demanding an increase in social spending.

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<sup>3</sup> Ukraine: Finance Outlook, EIU Viewswire, February 18, 2009; EIU Country Report: Ukraine, February 2009; "East Europe Home Buyers Squeezed by Foreign Loans," Associated Press wire service, March 4, 2009; "Ukraine: Default Risk Lies in the Corporate Sector," Oxford Analytica, February 26, 2009.

## Ukraine's Foreign Policy

Until Yushchenko's election in 2005, Ukrainian foreign policy was characterized by an effort to balance ties with Russia with those with the United States and Western countries. Previous leaders gave lip service to joining NATO and the European Union, but did little to meet the standards set by these organizations. Ukrainian leaders also promised closer ties with Russia in exchange for Russian energy at subsidized prices, but balked at implementing agreements with Russia that would seriously compromise Ukraine's sovereignty, such as ceding control over Ukraine's energy infrastructure to Moscow.

After taking office, President Yushchenko put integration into the global economy and Euro-Atlantic institutions at the center of Ukraine's foreign policy. One key foreign policy goal has been for Ukraine to join the World Trade Organization (WTO). Ukraine joined the WTO in May 2008. In addition to helping Ukrainian exporters, WTO membership may give Ukraine political leverage over Russia, given that the consent of Ukraine (and every other WTO member state) is necessary for Russia to join the organization. In the longer term, Yushchenko wants Ukraine to join the European Union and NATO. Relations with Russia have been troubled since Yushchenko took power.

Conflict between Ukraine's political forces has led its foreign policy to appear incoherent, as the contending forces pulled it in pro-Western or pro-Russia directions or simply neglected foreign policy as less important than domestic political combat. Yanukovich and the Party of Regions are less eager to pursue rapid integration into Euro-Atlantic institutions and more favorable to closer ties with Russia, especially in the economic sphere. Prime Minister Tymoshenko has swung from backing Yushchenko's support for NATO membership for Ukraine in early 2008 to trying to mend fences with Moscow more recently. This may be due to her deteriorating relationship with Yushchenko. She may also be hoping to boost her chances in Russophile eastern Ukraine in presidential elections scheduled for January 2010.

## NATO

Ukraine currently has an "Intensified Dialogue" with NATO, but President Yushchenko has sought a Membership Action Plan (MAP), a key stepping-stone to joining the Alliance. The MAP gives detailed guidance on what a country needs to do to qualify for membership.

On January 15, 2008, Prime Minister Tymoshenko joined President Yushchenko and parliament speaker Arseniy Yatsenyuk in sending a letter to NATO Secretary General Jaap de Hoop Scheffer requesting a Membership Action Plan for Ukraine at the April 2-4 NATO summit in Bucharest, Romania. On March 17, Yushchenko and Tymoshenko sent letters to De Hoop Scheffer, German Federal Chancellor Angela Merkel, and French President Nicolas Sarkozy reiterating Ukraine's request for a MAP.

The Party of Regions and the Communists are strongly opposed to a MAP for Ukraine. They responded to the first letter by blocking the functioning of the parliament for several weeks. Public opinion polls have shown that less than one-third of the population supports NATO membership. Both President Yushchenko and Prime Minister Tymoshenko launched a public information campaign to educate Ukrainians about NATO. They agreed that Ukraine's entry into NATO would have to be endorsed beforehand by a public referendum. Perhaps in an effort to defuse domestic and Russian criticism, President Yushchenko has said that Ukraine will not allow

the establishment of NATO bases on Ukrainian soil. He has noted that the Ukrainian constitution does not permit the establishment of foreign military bases, with the temporary exception of Russia's current Black Sea naval base, the lease for which runs out in 2017.

NATO declined to offer Ukraine a MAP at the Bucharest summit, despite strong support from the United States and almost all central European NATO members. Germany and France played the leading role in blocking the effort. They raised questions about Ukraine's qualifications for a MAP and also expressed concerns that granting a MAP to Ukraine would hurt relations with Russia. However, the Allies agreed that Kiev could receive a MAP as early as the NATO Foreign Ministers' meeting in December 2008, if remaining questions over its application are resolved. In a move that surprised many observers, the summit communique also contained an unqualified statement that Ukraine (and Georgia) "will become members of NATO," without specifying when that might happen.

The ambiguous result of the summit caused varying reactions within Ukraine. President Yushchenko and the Ukrainian government hailed the summit as a key stepping-stone on Kiev's path toward NATO membership, pointing in particular to the commitment made to admit Ukraine into the Alliance. In contrast, Yanukovich and the opposition applauded the denial of a MAP at the summit, viewing it as a blow to Yushchenko's pro-NATO policy.

The conflict between Russia and Georgia in August 2008 may have had an important impact on Ukraine's hopes of receiving a MAP. European NATO countries that have opposed a MAP for Ukraine may be even more reluctant to agree to one, fearing a sharp deterioration in relations with Moscow and perhaps even being embroiled in a military conflict with Russia in the future.

On December 2, 2008, NATO foreign ministers agreed to work with Ukraine on "annual national programs" within the framework of the existing NATO-Ukraine Commission, which assists Ukraine's defense reform efforts. This approach may provide a way for Ukraine to make progress toward its NATO aspirations without calling it a MAP. However, France and Germany have warned strongly against viewing the compromise as a shortcut to NATO membership for the countries, saying that a MAP would still be required.

Domestic political infighting in Ukraine has hurt Ukraine's MAP prospects by convincing some NATO members that Ukraine lacks political maturity required for NATO membership. In addition, if President Yushchenko is not reelected in 2010, which appears likely given his current single-digit support levels in opinion polls, the new president may de-emphasize or even openly renounce the current government's MAP aspirations.

## **European Union**

Ukraine seeks to be recognized as a potential EU member candidate. Most EU countries have been cool to Ukraine's possible membership, perhaps because of the huge burden a large, poor country like Ukraine could place on already-strained EU coffers. Indeed, EU officials have tried to dissuade Ukraine from even raising the issue. However, Poland and the Baltic states have advocated Ukraine's eventual membership in the EU, in part because they see a stable, secure Ukraine as a bulwark against Russia. Nevertheless, even supporters of Ukraine's EU membership acknowledge that it could be more than a decade before Kiev is ready to join, but believe that formal EU recognition of Ukraine's candidacy could speed the reform process in Ukraine.

Ukraine currently has a Partnership and Cooperation Agreement (PCA) with the EU, as well as a Ukraine-EU Action Plan within the context of the EU's European Neighborhood policy. The agreements are aimed at providing aid and advice to assist Ukraine's political and economic transition and to promote closer ties with the EU. At an EU-Ukraine summit in December 2005, the EU announced that it would grant Ukraine market economy status. The move makes it easier for Ukrainian firms to export to the EU without facing antidumping duties.

In March 2007, the EU and Ukraine announced the opening of negotiations on a New Enhanced Agreement to replace the current PCA. Talks on an EU-Ukraine free trade area began in February 2008. Ukraine is seeking visa-free travel between the EU and Ukraine, although the EU is offering only visa liberalization as a goal. The EU budgeted 494 million Euro (\$658 million) from 2007-2010 to support reform in Ukraine, in such areas as energy cooperation, strengthening border controls, bolstering the judiciary and the rule of law, and addressing environmental concerns.<sup>4</sup>

In September 2008, the EU agreed to call the new Ukraine-EU accord currently under negotiation an "Association Agreement." However, unlike the association agreements signed by other European countries in the past, the new accord will not contain an explicit recognition of Ukraine's EU membership aspirations. In May 2009, the EU launched the Eastern Partnership program within the context of their European Neighborhood policy, which also includes non-European countries. Although the EU insists that the regional approach taken by the Partnership (which includes Belarus, Moldova, Georgia, Armenia, and Azerbaijan) will improve EU cooperation with these countries, it is not clear that the initiative offers Ukraine significantly more than previous efforts.

EU countries were angered by the January 2009 natural gas standoff between Russia and Ukraine, which led to a cut-off of natural gas supplies to EU countries for two weeks. However, the EU did not assign sole blame for the crisis to Ukraine, despite Moscow's diplomatic and public relations efforts aimed at doing so. Since the stand-off, the EU has taken steps to try to work with Ukraine to prevent another gas cutoff. In March 2009, the EU agreed to provide EU assistance to help modernize Ukraine's gas pipeline system in exchange for greater transparency by Ukraine in how the system is run. Additional funding for the project is expected to come from the World Bank, European Investment Bank, and the European Bank for Reconstruction and Development. In July 2009, the EU Commission brokered an agreement under which the EBRD and World Bank agreed to provide loans to help Ukraine modernize its gas pipeline system. In the short term, \$300 million in EBRD loans will be aimed at helping Ukraine improve its natural gas storage facilities and other infrastructure. Next year, the EBRD is willing to loan Ukraine another \$450 million for Ukraine to reform its gas sector. The World Bank is willing to loan Ukraine up to \$500 million for structural reforms, including of the gas sector.

## **Russia**

Ukraine's most difficult and complex relationship is with Russia. President Putin strongly backed Yanukovich's fraudulent "victory" during the 2004 presidential election campaign and reacted angrily at the success of the Orange Revolution. Russian observers with close ties to the Kremlin charged that the Orange Revolution was in fact a plot engineered by the United States and other

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<sup>4</sup> "Commissioner Ferrero-Waldner Announces Substantial Increase in Financial Assistance to Ukraine," EU press release, March 7, 2007.

Western countries. For his part, President Yushchenko offered an olive branch to Moscow, calling Russia a “permanent strategic partner” of Ukraine.<sup>5</sup> Nevertheless, relations have been rocky. Russia has been irked by Yushchenko’s efforts to support greater democratization in the region, impose tighter border controls on Transnistria, a pro-Moscow, separatist enclave within neighboring Moldova, and forge closer links with Georgia.

Ethnic Russians make up 17.3% of Ukraine’s population, according to the 2001 Ukrainian census. They are concentrated in the southern and eastern parts of the country. They form a majority in Crimea, where they make up 58.3% of the population. In the Crimean city of Sevastopol, the home base of the Russian Black Sea Fleet, 71.6% of the population are Russians. In addition, ethnic Ukrainians in the east and south also tend to be Russian-speaking, are suspicious of Ukrainian nationalism, and support close ties with Russia. Russian officials have tried to play on these regional and ethnic ties, not always successfully, as demonstrated by the 2004 Ukrainian presidential election. On the other hand, Ukrainian politicians are often tempted to curry favor with Moscow during presidential election campaigns, such as is taking place in the run-up to the January 2010 presidential vote, in order to court pro-Russian voters in populous eastern and southern Ukraine.

The Russia-Georgia conflict in August 2008 has had a negative impact on Russian-Ukrainian relations. Since President Yushchenko took power, Ukraine and Georgia have had close ties. President Yushchenko strongly condemned Russia’s military actions in Georgia. Ukraine’s foreign ministry accused Russia of using Black Sea Fleet vessels based in Crimea to attack targets in Georgia without consulting Ukraine and said Ukraine reserved the right to exclude such vessels from Ukraine. Russian leaders charged that Ukraine had supplied Georgia with arms which were used against Russian troops in the conflict.

On August 13, 2008, Yushchenko issued a decree requiring Russia to provide advance permission for movement of Russian military ships, planes, and personnel on Ukraine’s territory. Russia said the decree was anti-Russian and in contradiction to the 1997 treaty that gave Russia the right to base its fleet in Crimea. The Russian Black Sea Fleet has ignored the decree. The Russian vessels that participated in the Georgia conflict later reportedly returned to their Crimean base. Prime Minister Tymoshenko criticized the Yushchenko decree, saying she would not permit a conflict to occur between Russia and Ukraine over the Fleet.

Russia is upset that Ukraine has rejected Russian proposals to extend the Russian Black Sea Fleet’s stay in Crimea beyond 2017. On the contrary, Ukraine wants to start talks on preparing for the withdrawal of the Fleet, so as to prepare a smooth transition in 2017.

In September 2008, Ukraine’s foreign minister charged that Moscow was providing Russian citizenship documents to inhabitants of Crimea on a large scale. He expressed fears that Russia could use the presence of Russian citizens in Ukraine to justify military intervention in the future, as it did in Georgia.

In July 2009, Ukraine expelled a Russian diplomat in Kiev responsible for Black Sea Fleet affairs, as well as a Russian diplomat in Odesa, Ukraine. The move came after charges by President Yushchenko and Ukrainian officials that Russia continues to violate the terms of the Black Sea Fleet basing agreement and interfere in Ukraine’s internal affairs, including by

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<sup>5</sup> Jamestown Foundation, *Eurasia Daily Monitor*, January 25, 2005.

providing Russian citizenship documents to Ukrainian citizens. The moves triggered tit-for-tat expulsions from Moscow. In August 2009, Russia appeared to take the matter even further and intervene directly in Ukraine's presidential race. Russian President Dimitri Medvedev released a public letter to President Yushchenko condemning him for an "anti-Russian course." In a video blog, he added that the level of strain in relations between the two countries was "unprecedented." He said he hoped that after the presidential vote "a new political leadership" in Ukraine will permit an improved relationship. He said that until then Russia would decline to send a new ambassador to Kiev.

## Energy Issues

The most severe crises in Russian-Ukrainian relations have occurred over energy issues. Ukraine is heavily dependent on Russia for its energy supplies. About 80% of its oil and natural gas consumption comes from Russia. However, Ukraine's vulnerability to Russian pressure has been mitigated by the fact that the main oil and natural gas pipelines to central and western Europe transit its territory. Over two-thirds of Russia's gas exports pass through Ukraine. Until recently, Russian firms supplied energy to Ukraine at prices far below market rates. Energy sales have been conducted by non-transparent intermediary institutions, offering the elites of both countries opportunities to profit.

Russia's efforts to increase gas prices to market levels provoked crises in 2006 and 2009 that resulted in cutoff of Russian gas to western Europe. In 2005, the Russian government-controlled natural gas monopoly Gazprom insisted on a more than fourfold increase in the price that it charged Ukraine for natural gas. When Ukraine balked at the demand, Russia cut off natural gas supplies to Ukraine on December 31, leading also to cuts in gas supplies to Western Europe. The gas supplies were restored two days later after a new gas supply agreement was signed.

Another issue has been the involvement of a shadowy company, RosUkrEnergo, as the nominal supplier of Russian natural gas to western Europe through Ukraine. Some analysts are concerned about possible involvement of an organized crime kingpin in the company, as well as corrupt links with Russian and Ukrainian officials. The U.S. Justice Department has reportedly investigated the firm.<sup>6</sup> Tymoshenko battled to eliminate the company as a middleman in Russian gas exports to Western Europe and in supplies to Ukraine's domestic consumers. Yushchenko defended the company, triggering charges by Tymoshenko that his supporters were profiting by the company's existence, which Yushchenko denies.

The second gas crisis occurred in January 2009. The state-controlled Russian natural gas firm Gazprom stopped gas supplies to Ukraine on January 1 after the two sides failed to reach agreement on several issues, including a debt allegedly owed by Ukraine to Gazprom and the price that Ukraine would pay for gas supplies for 2009. The cut-off was supposed to affect only supplies for Ukraine; Russia continued to send gas through Ukraine destined for other European customers. However, within a few days, Russia accused Ukraine of diverting these supplies for its own use, and by January 6 cut off all deliveries through Ukraine to the rest of Europe. The EU

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<sup>6</sup> Glenn R. Simpson, "U.S. Probes Possible Crime Links to Russian Natural-Gas Deals," *Wall Street Journal*, December 22, 2006, 1. For background on the gas crisis, see CRS Report RS22378, *Russia's Cutoff of Natural Gas to Ukraine: Context and Implications*, by Jim Nichol, Steven Woehrel, and Bernard A. Gelb.

sharply criticized the cutoff, calling for a rapid resumption of supplies, but refused to take sides in what it termed a “commercial dispute.”

Many large European countries (and Ukraine itself) did not suffer greatly from the cutoff, despite frigid temperatures, due in part to substantial amounts of gas in underground storage facilities. However, some countries, particularly in the Balkans, were hit hard. Negotiations between Russia and Ukraine repeatedly broke down, with each side accusing the other of bad faith and trying to enlist European support for its views. An increasingly angry EU threatened to re-evaluate its relationship with both countries unless the impasse was resolved. Finally, on January 18, Russia and Ukraine reached an agreement, and gas supplies to Europe resumed on the 20<sup>th</sup>.

According to the agreement, RosUkrEnergo was eliminated as a middleman in the gas trade. In the first quarter of 2009, Ukraine was required to pay more than double what it paid in 2008 for gas. However, Ukraine was able to avoid this price increase by using gas in storage until gas prices declined later in the year, as the drop in oil prices was reflected in natural gas prices. The price that Russia would pay for gas transit remains at last year’s level. Russian leaders have warned that the poor financial situation of Naftogaz could lead to further gas crises, as Gazprom has threatened to cut off supplies again if it is not paid in advance for each month’s supplies.

Prime Minister Putin condemned as “ill-considered and unprofessional” the March 2009 EU agreement with Ukraine to upgrade Ukraine’s gas pipeline system in exchange for greater transparency in how the system is run. Russia’s hostility to the deal may be due to the fact that it interfere with Russia’s long-standing goal of controlling Ukraine’s natural gas pipelines and storage facilities. On the other hand, Russia has worked hard on developing options to cut Ukraine out of gas supply to western Europe. Gazprom is developing new gas pipelines under the Baltic Sea (called Nord Stream) and through the Balkans (called South Stream) to western Europe. Nord Stream could be ready as early as 2012, while South Stream would not be available until at least 2015. If successful, these efforts could sharply reduce Ukraine’s leverage over Russia on energy supplies. Moreover, Russia could then feel it would have a freer hand to put greater pressure on Ukraine on other issues. Key western European countries could feel they have less of a stake in Ukraine’s future, if they, like Russia, were no longer dependent on Ukrainian gas transport infrastructure.

## **NATO Membership**

Russian-Ukrainian relations have been strained by Kiev’s desire to join NATO. Russian leaders were angered when the April 2008 NATO summit in Bucharest said that Ukraine will join NATO at some point in the future. According to Russian press accounts, President Putin reportedly told President Bush and NATO leaders that Ukraine was not a real state, given its regional heterogeneity, and that it would cease to exist if it joined NATO.

On April 8, 2008, Russian Foreign Minister Sergei Lavrov said Russia would do all that it could do to prevent NATO membership for Ukraine. On April 11, Chief of the Russian General Staff General Yuriy Baluyevsky warned that Russia would take military and “other measures” if Ukraine joined NATO.<sup>7</sup> Non-military measures could include economic sanctions and efforts to encourage secessionist or other centrifugal forces in eastern and southern Ukraine, especially the

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<sup>7</sup> Jamestown Foundation Eurasia Daily Monitor, April 14, 2008, Radio Free Europe/Radio Liberty Daily Report, April 9, 2008, and Agence France Presse wire dispatch, April 11, 2008.

Crimea. Russia could make territorial claims against the city of Sevastopol in Crimea (where Russia has a naval base) or the Crimean peninsula as a whole. In June 2008, the Russian Duma (lower house of the parliament) passed a resolution asking the government to consider suspending the 1997 friendship treaty between Russia and Ukraine, if Ukraine receives a MAP. Such a move could be perceived as withdrawing recognition of Ukraine's borders by Russia. Also in June, Deputy Russian Prime Minister Sergei Ivanov during a visit to Sevastopol warned that Ukrainian membership in NATO would lead to a severing of military ties, reduced trade and industrial cooperation, and the introduction of visas for Ukrainians traveling to Russia.

## U.S. Policy

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. President Yushchenko visited the United States from April 4-7, 2005 and had meetings with President Bush and Secretary of State Rice. Yushchenko's address to a joint session of Congress on April 6 was interrupted by several standing ovations. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as joining the WTO, holding largely free and fair elections, and improving media freedom, while acknowledging difficulties in others, such as fighting corruption, establishing the rule of law, and constitutional reform.

President Yushchenko withdrew Ukraine's troops from Iraq in December 2005, in fulfillment of a campaign pledge, but promised to continue participation in Iraqi troop training efforts. Ukraine has not contributed troops to Afghanistan, at least in part due to bad public memories of the Soviet occupation of Afghanistan in the 1980s, but has supported a provincial reconstruction team.

The United States has taken steps to upgrade its economic relations with Ukraine. On January 23, 2006, the United States reinstated tariff preferences for Ukraine under the Generalized System of Preferences (GSP). Ukraine lost GSP benefits in 2001 for failing to protect U.S. intellectual property, particularly CD and DVD piracy. U.S. officials hailed Ukraine's efforts to improve its record on this issue. On March 6, 2006, the United States and Ukraine signed a bilateral agreement on market access issues, a key step in Ukraine's effort to join the WTO. U.S. officials said that Ukraine committed itself to eventual duty-free entry of U.S. information technology and aircraft products, as well as very low or zero duty on chemical products. U.S. firms also receive more open access in such areas as energy services, banking and insurance, telecommunications, and other areas. The bilateral agreement addressed other key concerns such as protection of undisclosed information for pharmaceuticals and agricultural chemicals, imports of information technology products with encryption, the operation of state owned firms based on commercial considerations, and reduction of export duties on non-ferrous and steel scrap.

The Administration was sharply critical of Russia's behavior during the January 2006 natural gas standoff between Russia and Ukraine. State Department spokesman Sean McCormack criticized Russia for using "energy for political purposes." He stressed that while the Administration supported a gradual increase in prices to market levels, it disagreed with a "precipitous" increase and cutoff. Secretary of State Condoleezza Rice likewise on January 5 stated that Russia had made "politically motivated efforts to constrain energy supply to Ukraine."<sup>8</sup> In May 2006, Vice

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<sup>8</sup> The State Department. Statement, January 1, 2006; Daily Press Briefing, January 3, 2006; Secretary Condoleezza (continued...)



President Dick Cheney characterized Russia's energy policy toward vulnerable countries as "blackmail" and intimidation."<sup>9</sup> On January 22, 2009, after the resolution of the second major Russia-Ukraine gas crisis, a State Department spokesman said the conflict "underscores the need for transparent, market-oriented arrangements for the sale and shipment of natural gas and the importance of diversifying energy supplies."<sup>10</sup>

President Bush visited Kiev on April 1, 2008. He offered "strong support" for Ukraine's request to receive a Membership Action Plan from NATO at the Bucharest summit. He praised Ukraine for its contributions in Iraq, Afghanistan, and Kosovo, noting that Ukraine is the only non-NATO country supporting every NATO mission. He praised Ukraine's commitment to democratic values and open markets, and offered continued U.S. support to fight corruption, support civil society groups and strengthen Ukraine's institutions.

The two sides signed a "roadmap" for strengthening bilateral ties in many areas, including trade and investment, energy security, defense cooperation, technology and space cooperation, among other issues. One document signed was a Trade and Investment Cooperation Agreement, which Ukraine would like to see as a stepping-stone to an eventual free trade agreement between the two countries. In order to boost U.S. investment in Ukraine, the United States has urged Ukraine to continue to make reforms in several areas, including reducing regulation, clarifying commercial laws, and introducing more transparency into the privatization process.<sup>11</sup> Ukraine is also seeking the return of the U.S. Overseas Private Investment Corporation (OPIC) to Ukraine. The two countries signed a memorandum of understanding on November 10, 2008, on the steps Ukraine needs to take in order for the United States to restore OPIC efforts to increase U.S. investment in Ukraine.<sup>12</sup>

Although the United States was unsuccessful in persuading NATO to give Ukraine a MAP at the Bucharest summit, Administration officials hailed NATO's commitment in the summit communique to grant Ukraine membership in the future. They scored another success in getting NATO to agree to the development of annual national plans within the context of the NATO-Ukraine Commission, although differences continued to exist between the United States and those countries (particularly France and Germany) on whether such plans could advance Ukraine's NATO membership aspirations in the absence of a MAP.

The Bush Administration sharply criticized Russia's military actions in Georgia in August 2008. On September 5, Vice President Cheney visited Ukraine, as part of a tour to bolster U.S. allies in the region. Other stops included Azerbaijan and Georgia. After a meeting with President Yushchenko, Cheney stressed the U.S.'s "deep and abiding interest" in Ukraine's security. He said Ukraine should be free of "threat of tyranny, economic blackmail, or military invasion or

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Rice, Remarks at the State Department Correspondents Association's Breakfast, January 5, 2006.

<sup>9</sup> "Vice President's Remarks at the Vilnius Conference," May 4, 2006, from the White House website <http://www.whitehouse.gov>.

<sup>10</sup> "Statement on Agreement to Restore Gas Flows to Europe," January 22, 2009, <http://useu.usmission.gov>

<sup>11</sup> Transcript of Remarks by U.S. Secretary of Commerce Carlos M. Gutierrez to American Chamber of Commerce in Ukraine, June 5, 2008.

<sup>12</sup> Transcript of Bush-Yushchenko press conference, April 1, 2008, from the White House website at <http://www.whitehouse.gov/news/releases/2008/04/20080401-1.html>.

intimidation” in the region. He said Ukraine’s “best hope to overcome these threats is to be united—united domestically first and foremost, and united with other democracies.”<sup>13</sup>

In an effort to signal support for Kiev after its failure to secure a MAP, the United States signed a “Charter on Strategic Partnership” with Ukraine on December 18, 2008. The charter discusses areas of current and future cooperation between the two countries, including “a program of enhanced security cooperation intended to increase Ukrainian capabilities and to strengthen Ukraine’s candidacy for NATO membership.”

During a speech to the Munich Conference on Security Policy in February 2009, Vice President Joseph Biden echoed President Obama’s call for U.S. relations with Russia to be “reset,” but warned that the United States would not accept any country’s asserting a “sphere of influence” and that states have the right to choose their own alliances. At a March 5 meeting of NATO foreign ministers, Secretary of State Hillary Clinton said “we should continue to open NATO’s door to European countries such as Georgia and Ukraine and help them meet NATO standards.”

Despite these assurances, some Ukrainian analysts have expressed concern that the “reset” in U.S.-Russian relations could lead to a downgrading of U.S.-Ukrainian ties, or even the making of concessions to Russia at Ukraine’s expense. Perhaps in order to calm these fears, Vice President Biden visited Ukraine on July 20, 2009, in the wake of President Obama’s visit to Moscow earlier that month. Biden expressed strong U.S. support for Ukraine’s aspirations to join NATO and rejected the idea of a Russian sphere of influence in the region. He said that the “reset” in ties with Russia would not come at Ukraine’s expense. He added that, on the contrary, it could help Ukraine by defusing “zero-sum” thinking in Moscow about U.S. relations with Russia’s neighbors.

Vice President Biden also urged Ukraine’s political leaders to overcome their differences for the good of the country. He warned them that their country’s economic freedom depended more on its energy freedom than any other factor. Biden said that Ukraine needs to move to market pricing for domestic energy supplies, improve energy efficiency, and diversify its energy supplies. He said that a working group of the U.S.-Ukraine Strategic Partnership Commission would begin discussions this fall on ways to improve Ukraine’s energy security.

## **Congressional Response**

During the 2004-2005 Ukrainian presidential election campaign and during the ensuing electoral crisis, the 108<sup>th</sup> Congress approved legislation calling for free and fair elections in Ukraine and urged the Administration to warn Ukraine of possible negative consequences for Ukraine’s leaders and for U.S.-Ukraine ties in the case of electoral fraud. The 109<sup>th</sup> Congress passed resolutions after President Yushchenko was inaugurated. On January 25, 2005, the House passed H.Con.Res. 16 and the Senate passed S.Con.Res. 7 on the 26<sup>th</sup>. The identical resolutions included clauses congratulating Ukraine for its commitment to democracy and its resolution of its political crisis in a peaceful manner; congratulating Yushchenko on his victory; applauding the candidates, the EU and other European organizations and the U.S. Government for helping to find that peaceful solution; and pledging U.S. help for Ukraine’s efforts to develop democracy, a free market economy, and integrate into the international community of democracies.

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<sup>13</sup> “Remarks by Vice President Cheney and President Yushchenko of Ukraine After Meeting,” September 5, 2008 from the White House website, <http://www.whitehouse.gov/news/releases/2008/09/print/20080905-3.html>.

## **U.S. Aid to Ukraine**

Congress has also dealt with the issue of U.S. aid to Ukraine. The FY2005 Iraq-Afghanistan supplemental appropriations bill (P.L. 109-13) provided \$60 million in aid to help the new government in the run-up to the March 2006 parliamentary election. Including funds appropriated in FY2005 foreign operations appropriations legislation, Ukraine received \$156 million in U.S. assistance in FY2005.

The FY2006 foreign operations appropriations legislation (P.L. 109-102) provided \$84 million in Freedom Support Act (FSA) funds to promote reforms in Ukraine. Five million of that amount was earmarked for nuclear safety initiatives and \$1 million for mine safety programs in Ukraine. Total FY2006 U.S. aid to Ukraine was \$100.1 million. In addition to Freedom Support Act funds (\$82.16 million were actually allocated in FY2006, according to the Administration), Ukraine received \$2.18 million in Child Safety and Health (CSH) funds; \$10.89 million in Foreign Military Financing (FMF); \$1.75 million in IMET military training funds; and \$3.1 million in NADR funding to fight terrorism and proliferation. In FY2007, U.S. aid to Ukraine was \$96.5 million. Of this total, \$80 million was in FSA funding, \$9.5 million in FMF, \$2.17 million in Child Survival and Health funding, \$1.86 million in IMET, \$1.36 million in NADR, and \$1.63 million in Global HIV/AIDS Initiative funding.

According to the FY 2010 Foreign Operations Congressional Budget Justification, U.S. aid to Ukraine totaled \$119.31 million in FY2008. This amount included \$72.409 million in aid for political and economic reform in the Assistance for Europe, Eurasia, and Central Asia account (AEECA – formerly FSA). Ukraine also received \$34.5 million in Economic Support Fund (ESF) aid, \$6.036 million in FMF, \$2.391 million in Global Health and Child Survival funds; \$1.874 million in IMET military training funds; and \$2.1 million in NADR assistance. In FY2009, the Obama Administration estimated Ukraine will receive \$89.419 million in U.S. aid, including \$71.5 million in AEECA funding; \$7 million in FMF, \$1.75 million in IMET; \$7.369 million in Global Health and Child Survival funds; and \$1.8 million in NADR aid.

For FY2010, the Obama Administration requested a total of \$118.953 million in aid for Ukraine, including \$90.125 million in the AEECA account, \$16 million in FMF, \$8.178 million in Global Health and Child Survival aid, \$2.15 million in IMET, and \$2.5 million in IMET.

The committee report to H.R. 3081, the House-passed version of the FY2010 State Department-Foreign Operations appropriations bill recommends \$89 million for Ukraine in the AEECA account, and \$16 million for IMET. The report also expressed concern about rising anti-Semitism and other persecution of religious minorities in Ukraine, as well as in Belarus and Russia. The State Department's Coordinator of Assistance to Europe and Eurasia is directed to report to the Committee within 120 days on U.S. aid to fight this problem.

The Senate's version of the FY2010 State Department-Foreign Operations bill, S. 1434, has yet to receive floor consideration. The committee report for the bill recommends \$90 million in AEECA aid for Ukraine; notes a proposal for the Union of Councils for Jews in the Former Soviet Union to conduct outreach to fight anti-Semitism in Ukraine, Russia, and Belarus; and recommends \$500,000 for a forestry management program in Ukraine.

U.S. aid to Ukraine is focused on anti-corruption and rule of law efforts, stopping trafficking in persons, media and civil society development, energy sector reform, and fighting HIV/AIDS. Aid will help Ukraine prepare for presidential elections in 2010 and improve local governance,

particularly in eastern and southern Ukraine. The United States also seeks to increase exchange programs between the two countries. Other programs include efforts to help Ukraine implement WTO accession as well as prepare for a free trade agreement with the EU, encourage the growth of small business and strengthen export and border controls. Security assistance for Ukraine is aimed at helping Ukraine's defense reform efforts, improving operability with U.S. and NATO forces, as well as taking steps to boost Ukraine's military capabilities.

In 2005, the Millennium Challenge Corporation (MCC) selected Ukraine for Millennium Challenge Account (MCA) Threshold status. MCC funding in Ukraine is focused on fighting the country's severe corruption problem. In November 2006, Ukraine was made "compact-eligible" by the MCC board. The MCC is spending about \$45 million on anti-corruption efforts in Ukraine as part of a two-year program. The current program is slated to be completed at the end of 2009.<sup>14</sup>

### **Other Legislation**

Congress dealt with a long-standing stumbling block in U.S.-Ukrainian relations by passing legislation to terminate the application of the Jackson-Vanik amendment to Ukraine, granting the country permanent Normal Trade Relations Status. On March 8, 2006, the House passed H.R. 1053 by a vote of 417-2. It was approved by the Senate by unanimous consent on March 9, and was signed by the President on March 23.<sup>15</sup>

On April 17, 2007, Representative Alcee Hastings introduced H.Con.Res. 115, which called on all sides in Ukraine's political crisis to solve the issue peacefully and in accordance with the rule of law. The resolution reaffirms U.S. support for Ukraine's transition to democracy and a free market economy, as well as for the country's independence, sovereignty, and territorial integrity. A Senate version of the resolution (S.Con.Res. 30) was introduced by Senator Dodd on May 2. On July 23, Mr. Hastings introduced H.Con.Res. 189, which called on Ukrainian leaders to abide by the May 27 agreement to hold new parliamentary elections, and to hold those elections in accordance with OSCE standards.

On September 21, 2007, the Senate passed S.Res. 320. The resolution expresses hope that Ukraine will hold its September 30 parliamentary vote in a way that is consistent with OSCE standards, urges Ukrainian leaders to work together to solve Ukraine's problems, and pledges continued U.S. friendship for and assistance to Ukraine. On October 4, Representative Hastings introduced H.Res. 713, which congratulated Ukraine on conducting the September 30 elections in accordance with OSCE standards and pledging continued U.S. support for Ukraine's efforts to achieve a democratic political system, a free market economy, and full integration with the West.

Congress has expressed support for Ukraine's possible membership in NATO. The NATO Freedom Consolidation Act was passed by the Senate on March 15, 2007, and the House on March 26. The bill (S. 494) expresses support for further enlargement of NATO and authorizes U.S. aid to Ukraine to assist it in preparing for possible NATO membership. President Bush signed the bill into law on April 9 (P.L. 110-17). On February 14, 2008, the Senate passed S.Res. 439, which expresses the "strong support" of the Senate for a MAP for Ukraine and Georgia. On

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<sup>14</sup> FY2010 Congressional Budget Justification for Foreign Operations, from the State Department website, <http://www.state.gov>.

<sup>15</sup> CRS Report RS22114, *Permanent Normal Trade Relations (PNTR) Status for Ukraine and U.S.-Ukrainian Economic Ties*, by William H. Cooper.

February 25, 2008, Representative Wexler introduced H.Res. 997, the House version of S.Res. 439. It was passed by the House on April 1, 2008.

After the NATO summit, the Senate passed S.Res. 523 on April 28. The resolution expresses the “strong support” of the Senate for the statement of the Allies at the Bucharest summit that Ukraine and Georgia will become members of NATO. It also urges NATO to grant a MAP to Ukraine and Moldova at the NATO foreign ministers’ meeting in December 2008. On May 19, the Senate passed S.Res. 570, which reiterated the Senate’s strong support for Ukraine and Georgia’s NATO aspirations.

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